

Minnesota Department of Finance

January 2007

State Revenues On Target Since November Forecast

Net general fund revenues totaled \$2.967 billion during November and December, \$57 million (2.0 percent) more than forecast. Although individual income tax receipts and sales tax receipts were both slightly below forecast, state revenues were boosted by stronger than anticipated corporate tax receipts. Motor vehicle sales taxes, and other tax receipts also exceeded forecast.

Summary of Tax Receipts: (November - December, 2006)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,096	\$1,091	(5)	(0.5)
Sales	721	714	(7)	(1.0)
Corporate	223	271	48	21.4
Motor Vehicles	35	37	2	5.8
Other	<u>835</u>	<u>854</u>	<u>19</u>	<u>2.3</u>
Total	\$2,910	\$2,967	\$57	2.0

Corporate income tax receipts were \$48 million (21 percent) more than forecast in November. Corporate miscellaneous payments, reflecting liabilities in prior tax years, were \$33 million more than projected and corporate refunds were \$16 million less than forecast. (See page 4). Corporate estimated payments for tax year 2006 were on forecast. The modest weakness in individual income tax receipts was due to higher than projected income tax refunds. Withholding tax receipts, the state's single largest source of revenue, were \$2 million above forecast for the past two months. Gross sales tax receipts were \$5 million below forecast. Revenue variances for other revenues were small and generally positive.

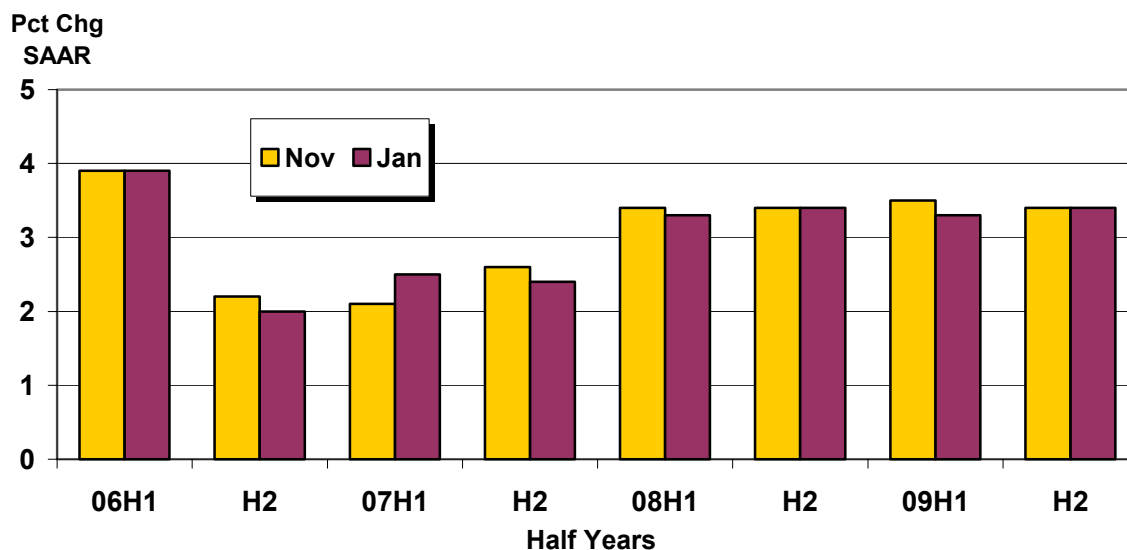
Fourth quarter revenue variances often reflect timing differences, not underlying changes in the economy. Sales tax collections reported are only for sales in October and November. Receipts from December sales, the largest part of the crucial Christmas shopping season, will not be remitted to the state until mid-January. Also, the variance for estimated individual income tax payments could change materially. Fourth quarter estimated individual income tax payments are not due until January 16 and the proportion of taxpayers whose estimated tax returns are submitted and processed by the Department of Revenue by December 31 varies substantially from year to year. More complete data on all revenue sources will be available at the end of January and will be incorporated in February's revenue forecast.

Little Change in U.S. Economic Outlook – Slow Growth Still Expected through Mid-2007

Economic signals have been mixed since November's forecast. Employment growth in the past two months has been stronger than most had expected, but only slightly stronger than needed to keep pace with normal labor force growth. The housing sector continues to weaken, but (to this point) the slump has not been as severe as was feared. Unseasonably warm winter weather in most of the country has also helped consumers by relieving some energy price pressures. The lower energy prices did not provide a major boost for Christmas spending though. Christmas sales were modestly below expected levels projected prior to the start of the shopping season.

After considering all the recent economic news, most forecasters see little reason to make significant changes in their 2007 projections. The consensus continues to call for the real GDP growth rate to slow to less than 2.5 percent in the first half of 2007. Then the economy is expected to strengthen gradually in late 2007. By early 2008 economic growth is forecast to once again exceed 3 percent annually, putting the U.S. economy back on track for another extended period of strong economic growth.

January's baseline forecast from Global Insight (GII), Minnesota's national economic consultant, is very similar to the national consensus. It is also almost identical to November's projections. Real GDP growth rates for fiscal 2007 and 2008 are unchanged at 2.6 percent and 2.7 percent respectively. For fiscal 2009 the GII baseline now calls for 3.4 percent real growth; in November GII projected 3.3 percent growth. The inflation outlook also is largely unchanged. January's baseline CPI forecast exceeds November's by just 0.1 percent in fiscal 2007, 2008, and 2009.

Real GDP Expected to Grow 3 Percent or More in 2008 and 2009

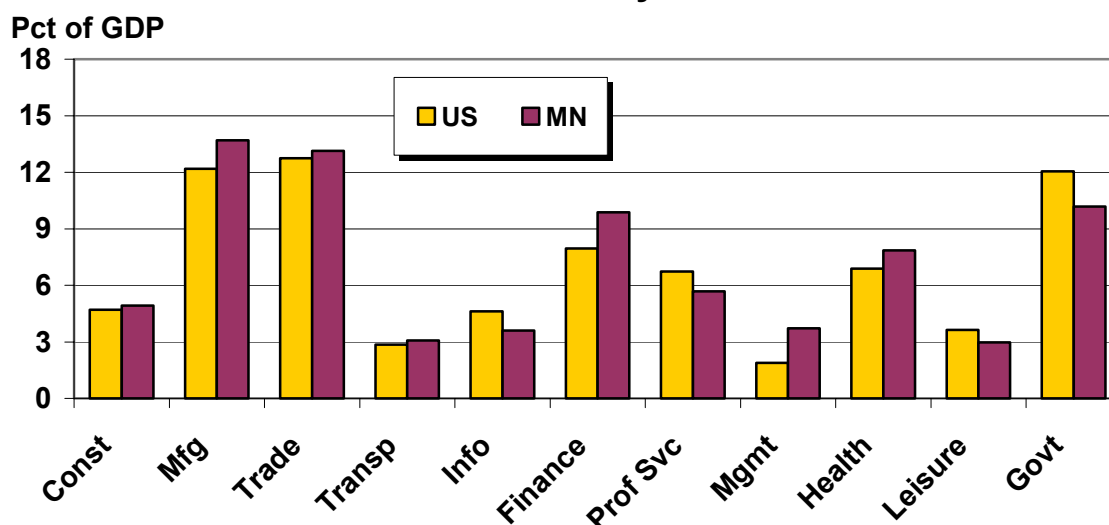
Global Insight assigns a 60 percent probability to the January baseline, the same as in November. A more pessimistic scenario in which the economy “nearly sinks into recession” is assigned a probability of 20 percent as is a more optimistic scenario in which economic growth rebounds more quickly.

The Structure of Minnesota’s Economy Is Very Similar to the National Average

In the early 1960’s much of Minnesota’s economic activity was attributable to its abundant resources. The state’s agricultural, mining, and forestry sectors and the associated manufacturing activity in the food processing, lumber and wood products, and paper industries accounted for about 19 percent of total state product, 9 percentage points more than the national average. Since then Minnesota has evolved into a diversified manufacturing-services based economy. The resource-based sectors have grown, but they have not grown as fast as other parts of the economy. Now manufacturing, trade, and finance are the largest contributors to Minnesota’s Gross State Product.

The changes in Minnesota’s economy that have occurred since the 1960s have created an economy very similar in structure to that of the national economy. Manufacturing is now a greater proportion of the Minnesota economy than it is for the national economy, as are the trade, financial services, and management services sectors. The information sector and the leisure and hospitality industry are a smaller share of Minnesota’s economy than the national economy. The government sector in Minnesota also comprises a smaller share of the state’s economy than it does, on average, nationally.

Minnesota's Economy Is Very Similar to the U.S. Economy



COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ in thousands)

	FY2007 YTD			November -December 2006		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<u>Individual Income Tax</u>						
Withholding	2,777,845	2,779,386	1,541	978,396	979,937	1,541
Declarations	406,500	403,588	-2,912	115,285	112,373	-2,912
Miscellaneous	140,298	142,097	1,799	29,655	31,454	1,799
Gross	3,324,643	3,325,071	428	1,123,337	1,123,764	428
Refund	76,800	82,583	5,783	27,407	33,190	5,783
Net	3,247,843	3,242,488	-5,356	1,095,930	1,090,574	-5,356
<u>Corporate & Bank Excise</u>						
Declarations	585,664	584,896	-768	247,600	246,832	-768
Miscellaneous	70,625	103,132	32,507	16,744	49,251	32,507
Gross	656,289	688,028	31,738	264,344	296,083	31,738
Refund	76,728	60,537	-16,191	40,700	24,509	-16,191
Net	579,561	627,490	47,929	223,644	271,573	47,929
<u>Sales Tax</u>						
Gross	2,212,083	2,206,926	-5,156	759,190	754,034	-5,156
Refunds	97,993	99,727	1,734	38,297	40,031	1,734
Net	2,114,089	2,107,200	-6,890	720,893	714,003	-6,890
<u>Motor Vehicle Sales Tax</u>						
	121,412	123,459	2,047	35,011	37,058	2,047
<u>Other Revenues:</u>						
Estate	63,972	68,813	4,841	17,009	21,850	4,841
Liquor/Wine/Beer	32,841	31,987	-854	13,094	12,240	-854
Cigarette/Tobacco/Cont Sub	68,990	71,066	2,076	9,708	11,784	2,076
Deed and Mortgage	125,140	125,407	266	45,193	45,459	266
Insurance Gross Earnings	126,968	128,293	1,325	63,100	64,425	1,325
Lawful Gambling	21,613	21,525	-88	8,452	8,364	-88
Health Care Surcharge	104,141	105,082	941	34,366	35,308	941
Other Taxes	-112	1,236	1,348	-392	956	1,348
Statewide Property Tax	286,857	294,712	7,855	286,621	294,476	7,855
DHS SOS Collections	24,359	25,964	1,605	8,290	9,895	1,605
Income Tax Reciprocity	63,481	63,481	0	63,481	63,481	0
Investment Income	36,911	42,125	5,214	10,525	15,739	5,214
Tobacco Settlement	178,355	180,605	2,249	178,162	180,412	2,249
Departmental Earnings	154,967	136,723	-18,243	72,770	54,526	-18,243
Fines and Surcharges	45,116	45,933	816	16,182	16,998	816
Lottery Revenues	17,997	17,851	-147	7,040	6,894	-147
Revenues yet to be allocated	1,259	2,763	1,503	0	1,503	1,503
Residual Revenues	19,593	25,523	5,930	8,633	14,562	5,930
County Nursing Home, Pub Hosp IGT	3,396	3,396	0	1,132	1,132	0
Other Subtotal	1,375,847	1,392,484	16,637	843,367	860,004	16,637
Other Refunds	20,716	17,754	-2,962	8,684	5,722	-2,962
Other Net	1,355,131	1,374,729	19,599	834,683	854,282	19,599
Total Gross	7,690,273	7,735,967	45,694	3,025,249	3,070,942	45,694
Total Refunds	272,236	260,601	-11,635	115,087	103,452	-11,635
Total Net	7,418,037	7,475,366	57,329	2,910,161	2,967,490	57,329